STATE OF WASHINGTON
STATE INVESTMENT BOARD

Board Meeting
Minutes

February 20, 2003

The State Investment Board met in open public session at 9:31 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present:	John Charles Charlie Kaminski Glenn Gorton John Magnuson George Masten Patrick McElligott Mike Murphy Bob Nakahara Lee Ann Prielipp Paul Trause Debbie Brookman Senator James West
Absent:	Representative Helen Sommers Jeffrey Hanna Jeff Seely
Also Present:	Joe Dear Gary Bruebaker Sue Hedrick Nancy Calkins Beth Vandehey Steve Draper Tom Ruggels Bill Kennett Diana Will Alison Bonaci, Pacific Corporate Group Eric Becker, Pacific Corporate Group

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Chair Charles called the meeting to order at 9:31 a.m. and identified members in attendance.

ADOPTION OF MINUTES – January 23 and 24, 2003 and January 16, 2003

> **Mr. McElligott moved to adopt the Board minutes of January 23 and 24, 2003 and January 16, 2003. Ms. Prielipp seconded the motion.**
>
> The motion carried unanimously.

PUBLIC COMMENT
Glenn Gregory, president of Obsidian Investment Advisers, spoke before the Board. He is also a member of Tabor 100, a non-profit Pacific Northwest association of African American businessmen and entrepreneurs committed to facilitating the development of business, economic power and educational excellence in combination with a passion for social equity. Mr. Gregory said the organization has worked on a precedent-setting initiative to raise the level of discourse about local businesses' inability to access private equity.

Mr. Gregory said that, in speaking with a wide variety of business owners and economic development professionals from across the state, they have discovered that a significant disparity exists in access to capital among Washington businesses. He said this issue is not just a minority business problem, but one impacting all businesses.

He said they were, therefore, pleased to recently learn about an initiative within the Washington State Investment Board (WSIB) to update its policy on economically targeted investments, something they view as an overlooked opportunity.

He commended the WSIB on its proactive approach to addressing the capital needs of high-potential businesses within the state, and said the Board's efforts in structuring a revised in-state investment policy will go a long way to helping the Washington State economy improve.

Chair Charles then took a moment to point out that, although it was not indicated on the agenda, there was the possibility there might be action items as a result of the executive staff report under Agenda Item 9.

QUARTERLY PERFORMANCE REPORTS
Commingled Trust Fund (CTF) - Staff
Mr. Bruebaker provided the CTF performance report for the quarter ended December 31, 2002. The Wilshire 5000 had its second positive quarter for the year, returning 7.82 percent. The first quarter of the year, it was up one percent. The non-U.S. equity market underperformed the U.S. market, gaining only 6.86 percent. The Gross Domestic Product (GDP) grew .7 percent for the quarter, while inflation, as measured by the Consumer Price Index (CPI), showed an increase for the

year of 2.4 percent, bringing the annualized 10-year increase to 2.5 percent. The Fed reduced the discount rate 50 basis points on November 5, 2002, from 1.75 percent to 1.25 percent.

Crude oil prices rose 57 percent to $31 a barrel, while gold rose almost 25 percent to its highest level since 1997. Calendar year 2002 was the third year in a row with negative investment performance for all major public equity indices. The S&P 500 has not experienced three negative performance years in a row since 1941.

The past three years have brought the WSIB significant equity investment losses; the Wilshire 5000 is down 48.6 percent, the NASDAQ is down 77.9 percent, while the MSCI EAFE is down 51.7 percent. Accounting fraud in corporate America is calling into question the quality of the fundamental information used by investors to make investment decisions, and the unprecedented terrorist attacks on American soil continue to keep the market at bay.

The CTF assets totaled $36.2 billion as of December 31, 2002, up almost $395 million for the quarter. In looking at the allocation targets, every one of the asset classes were within the target range, even the long-term target range, as of December 31, 2002. For the quarter, the fund underperformed the TUCS Public Fund > $ Billion Universe, but for every other time period, it outperformed that universe for the fiscal year, the 1-year, the 3-year, the 5- as well as the 10-year periods.

Mr. Bruebaker proposed eliminating restated performance data for two reasons. First, to his knowledge, no other large public pensions report restated performance data. Second, the TUCS Universe data that is used to compare WSIB performance does not contain restated data, so the comparison is based on investment results for dissimilar time periods. In addition, it's confusing to refer to preliminary data at some times and restated data at other times.

Treasurer Murphy said that he was one of those who was asking for that information some time back, principally because they have such a lag in information for private equity and real estate. So, in February, the Board is now seeing what the results were in September in those two categories. Mr. Murphy said that he likes this report, since it gives him an opportunity to see where they were at a given time and show the real numbers as opposed to just preliminaries. Mr. Kaminski asked if the Board will go back and use the preliminary numbers for the WSIB's history and then come up with a base report from there. What happens to the TUCS universe if they restate?

Mr. Bruebaker said the TUCS universe does have the preliminary data. The restated data is merely used in reports to the Board and in the annual report.

A discussion ensued on whether it would be better to continue restating the numbers or change the report and use preliminary numbers to align better with the TUCS numbers. Chair Charles referred the discussion on this issue to the Private Markets Committee.

Mr. Bruebaker then continued his report. He said U.S. Equity is at $11.6 billion, up $844 million for the quarter. The 10 largest holdings are almost the same as last time's. IBM has replaced Coke, and Merck & Company replaced Proctor & Gamble.

For the quarter performance, the CTF outperformed the Wilshire 5000, but did not for the fiscal year to-date or the 1-year. It did outperform for the 3-, 5- and 10-year periods. Non-U.S. Equity is currently at $5 billion, up $311 million. The fund has underperformed for the quarter and the fiscal year to-date, but outperformed for the 1-year, 3-year and 5-year. It underperformed for the 10-year.

Japan and Greece were the only negative returns in developed countries. Every other country had positive returns for the quarter. And in the emerging markets, the Philippines was the only one with negative returns. All other countries within the fund had positive returns.

In Fixed Income, the fund has underperformed for the quarter by 62 basis points, but has outperformed for the fiscal year. It is down 19 basis points for the 1-year, but has outperformed for the 3, 5, and 10-year periods against the Lehman Universal. Private Equity stands at almost $5.2 billion, up $26 million. Unfortunately, the increase in the investment is because draws exceeded distributions, not due to positive performance. In Real Estate, the fund is at $3.6 billion. It has outperformed for the quarter, the 1-year and the 3-year, and has underperformed for the 5-year.

Mr. Bruebaker said Page 15 showed the WSIB’s partners in terms of U.S. Equity as well as Non-U.S. Equity. Page 17 indicates the performance numbers for developed markets. For this quarter, three of the seven managers outperformed. Also, three out of seven outperformed for the 1-year, five out of seven for the 3-year, and the same five out of seven since inception.

Mr. Bruebaker said it was a good quarter for Emerging Markets, International Equity. Three of the five managers, as well as the composite, outperformed for the quarter. For the 1-year and the 3-year, only one of the managers outperformed, and for the 5-year, two of the managers outperformed against their respective benchmarks.

Defined Contribution Plans

For the quarter, TRS 3 is up $99 million. Last quarter, it was down $128 million. SERS is up $22.6 million; last quarter, it was down $28 million. PERS 3 is up $130 million, it was up $63 million last time due to new cash flows going into that particular program. Last time, PERS 3 was only 39 percent of the pie that was being invested in our Total Allocation Portfolio (TAP). It's now up to 49.1 percent.

The Deferred Compensation Program (DCP) is up $88.6 million, and the Judicial Retirement Account (JRA) is up $728,000 for the quarter.

The graph on Page 5 showed the 1-year returns for the period ended December 31, 2002 for Plan 3, and five out of ten managers outperformed their respective benchmark for that time period.

That is the same number that outperformed during the last period. For the DCP and JRA, only two out of the ten have outperformed the benchmark for this particular 1-year period.

Labor & Industries' (L&I) Funds
Mr. Bruebaker reported that the L&I funds are at $8.8 billion, up $69 million from the previous quarter.

Mr. Kaminski asked, with respect to the supplemental pension, if 33 percent cash is unusual, and is that the explanation for the divergence of the 1-year performance from the CMI benchmark. Mr. Bruebaker said the divergence is largely due to the high cash position and that this fund has high cash positions frequently. Mr. Kaminski asked if this was just a snapshot of where cash happens to be big. Mr. Bruebaker responded yes, it is, but that it has gone higher than that. In the Accident Fund, we've outperformed the CMI for the 1-year period. In the Medical Aid Fund, we underperformed. During this quarter, the Medical Aid Fund has CMOs in it and CMOs didn't do well this quarter. That's the reason for the underperformance.

The Pension Reserve at 13.48 did outperform the relative benchmark. And, taking out the Supplemental Pension, during the 3- and 5-year periods, the WSIB has outperformed the index for the other three funds during each of those periods.

Permanent and Other Trust Funds
The Permanent Funds totaled $712 million, down $6.3 million from the previous quarter. All of the funds were within their policy ranges for the asset allocation.

Mr. Bruebaker reported that the WSIB has had good long-term performance for most of the funds with the exception of the Common School Fund. He also said it would be the last time it would be on that particular page because it also has equities, so staff is going to break it out into its own page next quarter to show the information with more details.

For the Other Trust Funds, we have had excellent long-term performance. We have outperformed the benchmark in every one of these accounts for both 5 and 10-year periods.

The GET program is at $164 million, up $14.3 million for the quarter. Although we underperformed slightly against the passive benchmark, the quarter had excellent returns against both the absolute benchmark as well as the CPI plus 450 basis points.

This is the second quarter private DDEF funds are now shown. These are new funds to the program. For the state funds, all of the asset classes are within policy ranges, and the DDEF has continued to perform excellently.

Private Equity - Pacific Corporate Group Report
Mr. Eric Becker and Ms. Alison Bonaci of the Pacific Corporate Group (PCG) reported on the private equity portfolio performance through September 30, 2002. They provided a review of

market trends, overall portfolio performance, and portfolio performance detail, including significant events, and touched on allocation by sub-sector as well.

Ms. Bonaci noted that the pace of venture investing has continued to decline from the third quarter a year ago. In contrast, buyout activity has been stronger with volume more than doubling from the prior quarter. Buyout activity has been largely driven by increasing corporate divestitures as corporations attempt to firm up their balance sheets in these tough times. Fund raising in both the buyout space and the venture space continue to slow.

Ms. Bonaci gave some some figures on venture fundraising from Thompson Venture Economics and the National Venture Capital Association. Looking at the last three years, 653 venture funds raised $107 billion in 2000. In 2001, 331 venture funds raised $40.7 billion. Last year, 108 venture funds raised $7 billion. The declines have been dramatic. The IPO market has continued to slow.

There was a contraction in the overall portfolio investment rate of return (IRR). The since-inception IRR contracted from 14.1 percent in the prior quarter to 13.5 percent in the current quarter. Ms. Bonaci noted that this decline is consistent with that of the Venture Economics Universe over the same period for similar vintage years. The declines in the LP portfolio were largely driven by continued downward adjustments in valuation and declines in the value of public securities held.

Mr. Becker then talked more about private markets, portfolio performance detail and sub-sector allocation. He said that, with respect to the portfolio IRR, the good news is that it outperformed Venture Economics by 10 basis points. On an absolute basis, the portfolio decreased in value by 60 basis points. Compared to Venture Economics, it decreased by 70 basis points.

He pointed out that they were reporting as of September 30,2002, which happened to be one of the worst public markets in quite a long time since 1987. The S&P 500 fell 17 percent during the third quarter of 2002. Interestingly enough, and somewhat surprisingly, as of September 30, 2002, the S&P was actually 20 percent lower than it was September 30, 2001, which was shortly after the events of September 11th. And this has impacted the WSIB's portfolio in two ways. The first way is a direct impact with respect to general partners who are holding on to publicly-traded securities. And most of the general partners have a material exposure to public equity securities.

The second relates to how general partners value their private equity securities. A lot of them will use discounted public multiples to value their private equity securities, so to the extent that public multiples contract during the quarter, he said they should also see a decline in value for private equity.

He then reported on the WSIB's commitments. During the quarter, we closed two new commitments, $100 million to Charterhouse VII and $100 million to Fortress II. Also during the quarter, we authorized one new commitment of $100 million to Green Equity IV, and that commitment closed subsequent to quarter end. Also subsequent to quarter end, we closed on a $100 million commitment to Nordic Capital. And lastly, we are getting very close to closing on $75 million to Evercore Capital Partners. Mr. Becker mentioned that this was a highly-negotiated transaction, and Tom Ruggels was very successful in negotiating the deal, and was able to negotiate economic terms that are substantially better than were offered up originally.

Mr. Becker pointed out a new component on Page 3 of PCG's report. He said they wanted to provide the Board with the weighted average age of the portfolio, and currently the portfolio has a weighted average age of 4.9 years. He suggested this is relevant because the age of the portfolio is a very significant component of returns, and as investments in private equity mature, returns tend to rise.

Mr. Becker reported that one component currently putting downward pressure on our returns is the large commitments that were made in 1999, 2000 and 2001. These are relatively young investments, and as they mature, returns should rise. He handed out a two-page research article by PCG, which addresses that phenomenon, provides some empirical evidence to support the J curve effect, and supports the notion that returns in private equity are largely a function of time.

With respect to the portfolio overview, Mr. Becker reported that the fair market value increased by $26 million, as a result of two components, cash flow and a fair market. With respect to cash flows – representing contributions made from the pension fund to the general partners, and netting that against distributions that are made from general partners to the fund – the net cash flow out to general partners was about $300 million during the quarter. That was partially offset by a fair market value decline or portfolio depreciation of about $280 million. He noted that those were unrealized values.

He said that, over the long term, private equity has outperformed the S&P 500. Since inception, private equity has returned 13.5 percent versus 13 percent for the S&P 500, and over the last 10 years, the private equity portfolio has returned 14 percent versus 9 percent for the S&P 500. Over the last 5 years, private equity posted a positive return of 4.6 percent versus a negative 1.6 percent for the S&P 500.

He mentioned that last year was very tough for just about every asset class. However, a couple of asset classes posted positive returns over the last year, including distressed debt and mezzanine securities. And, over the longer term, large corporate finance and venture continued to have the best performance in our private equity portfolio.

He highlighted a few significant changes during the quarter for both the KKR portfolio and the LP portfolio. With respect to the KKR portfolio, the '86 fund posted a 15 percent decline, which was primarily due to declines in publicly-traded securities. And the European fund posted a negative 17 percent decline, primarily due to two write-downs.

He said that, with respect to the LP portfolio overall, the general partners continued to write down valuations. Specifically, 93 funds posted declines in value during the quarter compared to 24 funds that posted increases in value in the quarter.

Some of the more sizable declines included Welsh Carson, which on a combined basis declined by 15 percent; Madison Dearborn, which declined by 10 percent; and OCM, which declined by almost 6 percent. Partially offsetting these declines were Texas Pacific Group, which increased by 49 percent in Fund III largely due to a public offering that was done recently for Seagate Technologies. Fortress II also posted an increase of about 5 percent, and Austin Ventures VIII posted an increase of 25 percent.

Mr. Kaminski said that, last quarter, the Board talked about the amount of capital commitments that general partners returned to the limited partners. He asked if that phenomenon continues to happen or is it done.

Mr. Becker responded that it continues to happen. During the third quarter ending September 30th, there were three more general partners that reduced their fund size, and that brings the total to 15 funds that have reduced their fund size.

Mr. Kaminski asked if he saw that trend continuing. Ms. Bonaci said she would not be surprised to see some additional adjustments going forward.

Mr. Masten asked where that would be, if it would be principally in venture capital or leveraged buyouts. Ms. Bonaci said it would occur, for the most part, in venture capital.

Mr. Nakahara asked if, in the 24 funds that went up during the quarter, there were commonalities in regards to industry sectors that they were focused in. Mr. Becker replied that distressed debt and mezzanine have done best.

[Paul Trause arrived at 10:17 am]

ADMINISTRATIVE COMMITTEE REPORT

A revised policy on economically targeted investments (ETIs) was handed out. Chair Charles said the Committee recommended the revised policy to the Board to discuss and consider. He said the Committee suggested there should be an additional month of consideration on it. He added that the changes made from the staff's initial draft to the current draft are not significant. There is a clear emphasis on the members' retirement money and the responsibility of the Board to the members.

He said that, on Page 2, in the last paragraph, the original draft had indicated that we would facilitate exchange of information between our venture capital general partners. The Committee recommended that that be changed to *private equity* general partners just to make that a broader view. And then in terms of reporting, on the last page, Mr. Charles said he wanted to make it clear that reports on investments in Washington State and economically targeted investments would be made not only to the Legislature and the Governor but to the Board itself. The only other substantial change was to make the title, Economically Targeted Investment, plural.

Mr. Dear discussed three particular statements in the policy. On page 2, in the second paragraph under "Investment Approach," the second sentence talks about the relative size of the commitment to economically targeted investments in terms of its relation to the investable universe. This policy sets a minimum, it does not specify a ceiling. There is great interest among legislators and others about whether the Board should have a numerical target or not.

Mr. Dear said that staff believes it is too soon to determine if a number is desirable and what that number should be. So they suggested this relative exposure to the investable universe as a way of measuring performance and, thus, if the policy is adopted, and more experience is gained, perhaps a more specific target over time can be refined. Mr. Dear said he felt that that is a crucial sentence in the policy.

At the bottom of Page 2, specific reference is made to the Washington Technology Center and the Spokane Intercollegiate Research and Technology Institute. Both these organizations have regular contact with high technology firms in the state and, may help close that information gap between firms that are potentially eligible for investment and general partners who are seeking qualified investments. Mr. Dear emphasized that it is not the intention of the staff or the Board to make recommendations about funding potentially eligible companies, but simply to make introductions and exchange information.

On Page 3, under "Reporting," all private equity general partners would report on their activities evaluating investments in the state. He said staff believes this will have a beneficial effect, simply heightening the general partners' sensitivity to potential investment opportunities in the state.

Mr. Masten said he felt that one of the changes, making it *private equity* general partners, was very important because it broadens the base in which the Board could be investing in the state of Washington. He noted that the WSIB currently already has investments in real estate and other things. He said he thinks it's important not to limit this to venture capital, but to instead give the Board as broad an opportunity to invest in the state as possible.

Chair Charles asked Mr. Dear how much the WSIB has invested in Washington State at this time.

Mr. Dear responded that currently 3.3 percent of the total assets under management by the WSIB are invested in Washington State. For comparative purposes, the state represents 2.2 percent of the national gross domestic product, so we're at 50 percent relative overweight with respect to the entire investable universe.

He said that we are often compared to the California Public Employees Retirement System which has16.4 percent of its investments in California companies. He noted that they are fishing in a bigger pond. California's economy is 13.7 percent of the national economy. So, in a relative overweight sense, they're about 20 percent over compared to our 50 percent. He said he feels the Board can be proud that, without changing its investment criteria in any way, it's found good opportunities to invest in Washington.

He mentioned two other items. We currently have $850 million of venture capital committed and invested. $61 million of that is in Washington State companies. So, about 7 percent of the currently invested venture capital assets are invested in Washington State companies. In addition, we have $1.25 billion in committed but uncalled venture capital. It seems, therefore, that whatever it is that is inhibiting the economic recovery in the state and nation, it's not the supply of venture capital.

Senator West said this is an issue that the Legislature is considering, and he thinks it's good to get the Board to bring to light what they've done and what they intend to do and that they do this internally in this fashion.

He said that, while it's true there may be a great deal of capital available, there seems to be a lack of linkages to that capital, and he's discussed this with Mr. Dear. He said he's pleased that the Board, with its partners, will try to open up some of those avenues so that eligible businesses in Washington State that are investment grade would look to this resource as a potential opportunity. He pointed out that we're the largest institutional investor in the state, and many people, particularly in the Legislature, would like to ensure that when the Board is making investments, it is looking equally at companies in our own state rather than a lot of other places in the world. When two investments are of equal weight, perhaps there might be some favor shown to Washington.

Treasurer Murphy asked Senator West how he feels the Legislature will react to this kind of a policy. Is it helpful?

Senator West said that he has asked Mr. Dear to work with Senator Zarelli who sponsored the bill, and perhaps incorporate the Board policy in statute or recognize the Board's policy in some fashion in statute. That would at least give the legislators a feeling that they're participating in the process. He agreed that the Board must be careful of its fiduciary responsibility and the sanctity of the pensions, but he thinks the Legislature wants to have some participation in this also.

A short discussion ensued about whether the Board's in-state investments are overweighted in real estate versus the other three principal asset classes and whether the investments in Washington State are in old industry rather than in the other asset classes.

Mr. McElligott asked whether the Board is considering attaching a dollar amount or a number target to the policy. He cautioned it might make the Board vulnerable to criticism or be pressured to make decisions that may not be in the best interests of the beneficiaries. Mr. Dear said yes, if target is too high or the floor is too high, it could be a problem.

Chair Charles said the item would be on the agenda at the next Board meeting in March.

OATH OF OFFICE – Paul Trause
The Oath of Office was administered to Paul Trause, the new director of L&I. By virtue of his position and as long as he is director, Mr. Trause will serve as an ex-officio member of the WSIB.

ADMINISTRATIVE COMMITTEE REPORT - CONTINUED
The exective director's workplan was presented to the Committee. A discussion ensued on public disclosure procedures. Chair Charles said there would be a more thorough report later with the Assistant Attorney General's report. He said there was a discussion in the Administrative Committee meeting earlier on investment education to ensure that all Board members have at least an equal floor in terms of knowledge. He said there will be six hours of investment education training between March and May. Staff will poll the Board members soon for availability.

AUDIT COMMITTEE REPORT
Mr. Murphy reported that a special meeting was held on February 4th, 2003 to hear the Fiscal Year 2002 state audit exit conference report. Darren Bennett and Kim Hurley from the State Auditor's Office gave the report.

Mr. Bennett said this is the eleventh straight year of no audit findings. He mentioned there is one slight modification under bullet point 9, "Personal Service Contracts" and sub-bullet number 4 under "Evaluation Criteria." He said it states that, when they reviewed our personal service contract files, they found one file that did not contain evidence of evaluation criteria. Mr. Bennett said that the evaluation criteria was actually present, but that the grading sheet was not, so they will make a change. Other than that, he said it was a clean audit.

Mr. Murphy recommended that the Board accept the fiscal 2002 state audit report exit document. Mr. McElligott seconded. The motion was approved unanimously.

PUBLIC MARKETS COMMITTEE REPORT
Mr. Kaminski reported that the Public Markets Committee met on February 4, 2003. The first item was the State Street Global Advisors (SsgA) contract.

> **Ms. Prielipp recommended that the Board approve the Public Markets Committee's recommendation to authorize the executive director to extend the contract with SSgA for the final one-year extension through March 31, 2004, as provided in the existing terms of the contract. Mr. Gorton seconded. The motion was approved unanimously.**

The second item was the Committee's recommendation to select BlackRock Fed Fund as the government money market fund, BlackRock Temp Cash as the general money market fund, and Barclays Global Investors to provide the Plan 3 money market option.

> **Ms. Prielipp moved that the Board approve the Public Markets Committee's recommendation; Mr. Gorton seconded.**

Mr. Murphy asked if these were 2a-7 type funds. Mr. Kaminski said yes, some were. Some are note and can invest in instruments with maturities of up to 18 months.

The motion was approved unanimously.

PRIVATE MARKETS REPORT

Mr. Masten said there was one recommendation to the Board from the Private Markets Committee.

> **He moved that the Board approve the Private Markets Committee recommendation to invest up to $125 million, plus fees and expenses, in GTCR Fund VIII L.P. subject to final negotiations of terms and conditions. Mr. Murphy seconded.**

Mr. Masten said the company is raising a fund with a target of $2 billion. They have a strong and experienced management team and their strategy is somewhat different than the other partners. They have a strong track record. What they generally do is study markets and industries and identify an area of industry where they believe there's opportunity to make money through consolidation. They either do a top-down process where they recruit a good management team and then supply seed money to start buying companies and building the organization, or they find a good management team and existing company and buy in order to build on that.

Mr. Masten said the company's IRR in their Fund III was 34.6 percent and in Fund IV, 28.1 percent. The IRR in Fund V was 9.8 percent. Fund VI, a '98 fund, and 2000 are very recent, so they have not matured to a great extent, but their overall IRR is 27.1 percent. Mr. Masten said the staff, consultant and general partner feel they expect a substantial increase in return for VI and VII. They think there are great opportunities, and it's a good time to be raising a fund and making investments.

Treasurer Murphy said he made a comment at the Private Markets Committee and wanted to again make it at the Board meeting, especially in light of the comments made by PCG earlier about the fine work that Mr. Ruggels does in negotiation. Mr. Murphy said he encourages Mr. Ruggels to try to improve the terms and conditions on this particular investment.

The motion was approved unanimously.

EXECUTIVE STAFF'S REPORT

Executive Director's Report

Mr. Dear reported that his intention is to give a monthly report. The objective is to give a high-level summary of what's happening, then allow for discussion. He discussed his workplan and said the Board will take the next steps in working with the consultant, John Por, to do an investment education seminar in the next few months and another Board workshop on July 31 and Aug 1.

Mr. Dear reported that the Legislative and Communications Coordinator resigned. He will put out a new job announcement today, and hopes to fill it in a month. He said he will also ask the Department of Personnel to make the position exempt.

On the Operations side, Mr. Dear said the staff held a work-out session, and produced over 40 recommendations on what work to eliminate that did not add value. Mr. Dear said there were recommendations from staff on items such as how meetings and reports are done, and how things are approved. Mr. Dear said the staff appreciated getting rid of work they questioned.

The 2001-2003 biennial budget is in good shape. A surplus exists due primarily to the vacancy rate. Mr. Dear said he intends to use much of the projected surplus for technology purposes.

[Paul Trause left at 10:55 am]

Mr. Dear reported that heightened interest in ETIs and public disclosure requests are taking more time than previously expected. He is working on reviewing the policy on responding to public disclosure requests and being careful with regard to releasing confidential information.

On the legislative front, Mr. Dear said he has met with 13 legislators and has 11 more to meet with in the next few weeks. He has also appeared before five legislative committees. He reported that Senate Bill 5192 is scheduled for executive action soon; he received a substitute bill late yesterday to review.

Other legislation includes House Joint Memorial 4011, which asks the Board to adopt the ETI policy it is reviewing.

The House State Government Committee will hear House Bill 1766 next week. All financial and commercial data will be available two years after it is released. Mr. Dear recommended to the Board that it consider making a statement against the bill. He said it would deter general partners from partnering with the WSIB. He has met with the prime sponsor of the bill, Representative Glenn Anderson, to discuss the Board's concerns.

> **Ms. Prielipp moved that the WSIB take a position in opposition to HB 1766. Mr. Masten seconded the motion.**

Treasurer Murphy said he was reluctant to vote on the motion without the bill in front of him. Mr. Dear more specifically described what the bill will do. He gave Mr. Murphy a copy of the bill to review.

Mr. Masten urged that they pass the motion. Senator West suggested the Board authorize the director to speak on behalf of the Board on their concerns. Mr. McElligott asked if there were any companion measures in the Senate. Mr. Dear replied no. Mr. McElligott asked if there were any other sponsors. Mr. Dear said that Representative Brad Benson is also a sponsor of the bill.

Treasurer Murphy said that he would vote no on the motion because he didn't like things to be dropped on him at the last minute without a chance to review. He said he doesn't feel the bill's requirements are that onerous – most information should be okay to be made public after two years.

Chair Charles said there are times, such as during legislative sessions, when immediate decisions must be made to protect the interests of the Board. He said this motion would allow the executive director to speak against the bill, as appropriate in his judgment, on behalf of the Board members.

The motion passed, 6-2, with Treasurer Murphy and Mr. Gorton voting no.

Monthly Investment Reports – Gary Bruebaker
Mr. Bruebaker provided the January monthly performance report, which reflects the return for the month, which was a negative 1.9 percent. The assets under management were at almost $48.3 billion, down $894 million from the previous month. The CTF was at $36 billion, down $832 million from the previous month.

Mr. Bruebaker said that we are within policy ranges on all asset classes, including the long-range targets. He pointed out how volatile the markets are currently. The Wilshire is down 2.5 percent for the month of January, and down an additional 1.42 month-to-date through yesterday. Mr. Bruebaker said that these are certainly challenging times.

[Senator West left at 11:14 am]

[A recess was taken at 11:15 am. The Chair indicated the Board would move into executive session immediately after the break, which he expected would last for about 15 minutes. The Board reconvened at 11:23 am.]

ASSISTANT ATTORNEY GENERAL'S REPORT – EXECUTIVE SESSION
The Chair called the Board into executive session under RCW 42.30.110 (1)(i) to discuss with legal counsel potential litigation and the legal risks of current or proposed action that the agency has identified.

Mr. Charles said that public discussion of this matter was likely to result in adverse legal financial consequences to the agency. He indicated the Board expected the executive session would last for 15 minutes, at minimum. He said that, at the conclusion of the executive session, the Board would return to open session.

[Treasurer Murphy left at 11:23 am]

[The executive session concluded at 12:16 pm and the open session reconvened immediately thereafter.]

Mr. Masten moved to authorize the Administrative Committee to move forward with an administrative review of the Board's public disclosure policy and practices. Mr. McElligott seconded.

The motion passed unanimously.

There being no further business to come before the Board, the meeting adjourned at 12:17 p.m.

John Charles
Chair

ATTEST

Joseph A. Dear
Executive Director